

REVENUE DEPARTMENT[701]

Notice of Intended Action

Proposing rule making related to geothermal heat pump tax credit and providing an opportunity for public comment

The Revenue Department hereby proposes to amend Chapter 304, “Adjustments to Computed Tax and Tax Credits,” Iowa Administrative Code.

Legal Authority for Rule Making

This rule making is proposed under the authority provided in Iowa Code sections 421.14, 422.12N and 422.68.

State or Federal Law Implemented

This rule making implements, in whole or in part, Iowa Code section 422.12N and 2022 Iowa Acts, House File 2317.

Purpose and Summary

The primary purpose of this proposed rule making is to implement 2022 Iowa Acts, House File 2317, sections 6 and 7, which repeal the Iowa geothermal heat pump tax credit for installations occurring after December 31, 2023.

This proposed rule making also updates the Iowa geothermal heat pump tax credit rates described in paragraph 304.47(2)“a” in response to Federal Public Law No. 117-169, Title 1, Subtitle D, Part 3, Section 13302, also known as the Inflation Reduction Act of 2022, which was enacted into law on August 16, 2022. That federal legislation, in part, increased the rate used in the calculation of the federal residential energy efficient property tax credit for geothermal heat pumps from 26 percent to 30 percent of qualifying expenditures for installations in 2022, and from 22 percent to 30 percent of qualifying expenditures for installations in 2023. The Iowa geothermal heat pump tax credit is equal to 20 percent of that federal residential energy efficient property tax credit allowed for geothermal heat pumps. By operation of Iowa’s automatic rolling conformity to the Internal Revenue Code, the Iowa geothermal heat pump tax credit rate increases automatically when the corresponding federal tax credit is increased. Thus, the Iowa geothermal heat pump tax credit has increased from 5.2 percent to 6 percent of qualifying expenditures for installations in 2022, and from 4.4 percent to 6 percent of qualifying expenditures for installations in 2023.

Fiscal Impact

This proposed rule making has no known fiscal impact to the State of Iowa beyond that of the legislation it is intended to implement. The Fiscal Note for 2022 Iowa Acts, House File 2317, stated that the repeal of the Iowa geothermal heat pump tax credit on January 1, 2024, was not projected to have an identifiable fiscal impact. The Iowa geothermal heat pump tax credit rate increase for installations in 2022 and 2023 that has occurred because of Iowa’s automatic rolling conformity to the Internal Revenue Code is projected to decrease General Fund revenue by \$103,000 in fiscal year 2023; by \$143,000 in fiscal year 2024; by \$52,000 in fiscal year 2025; and by less than \$10,000 in fiscal year 2026 and fiscal year 2027.

Jobs Impact

After analysis and review of this rule making, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rule making would result in hardship or injustice to that person may petition the Department for a waiver of the discretionary provisions, if any, pursuant to rule 701—7.28(17A).

Public Comment

Any interested person may submit written or oral comments concerning this proposed rule making. Written or oral comments in response to this rule making must be received by the Department no later than 4:30 p.m. on December 20, 2022. Comments should be directed to:

Michael Mertens
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306
Phone: 515.587.0458
Email: michael.mertens@iowa.gov

Public Hearing

If requested, a public hearing at which persons may present their views orally or in writing shall be held as follows:

December 20, 2022
9 to 10 a.m.

Via video/conference call

Persons who wish to participate in the video/conference call should contact Michael Mertens before 4:30 p.m. on December 19, 2022, to facilitate an orderly hearing. A video link or conference call number will be provided to participants prior to the hearing.

Persons who wish to make oral comments at the public hearing may be asked to state their names for the record and to confine their remarks to the subject of this proposed rule making.

Any persons who intend to attend the public hearing and have special requirements, such as those related to hearing or mobility impairments, should contact the Department and advise of specific needs.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rule making by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rule making at its [regular monthly meeting](#) or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

The following rule-making action is proposed:

Amend rule 701—304.47(422) as follows:

701—304.47(422) Geothermal heat pump tax credit. For tax years beginning on or after January 1, 2019, but before January 1, 2024, a geothermal heat pump tax credit is available for residential property located in Iowa as provided in Iowa Code section 422.12N and this rule. Information relating to Iowa geothermal tax credits available for tax years prior to January 1, 2019, can be found in prior versions of this rule. Prior versions of the Iowa Administrative Code are located here: www.legis.iowa.gov/law/administrativeRules/agencies.

304.47(1) Eligibility for the credit. To be eligible for the credit described in this rule, all of the following requirements must be met:

a. The geothermal heat pump must be eligible for the federal residential energy efficient property tax credit provided in Section 25D(a)(5) of the Internal Revenue Code.

b. The taxpayer must claim the federal residential energy efficient property tax credit provided in Section 25D(a)(5) of the Internal Revenue Code.

c. The geothermal heat pump must be installed on residential property located in Iowa and placed in service on or after January 1, 2019, but before January 1, 2024. In determining whether this requirement is met, the term “placed in service” has the same meaning as used in Section 25D of the Internal Revenue Code.

d. The taxpayer must submit a timely and complete application to the department in accordance with subrule 42.47(4) 304.47(4).

304.47(2) Calculation of the credit.

a. The credit is equal to 20 percent of the federal residential energy efficient property tax credit allowed for geothermal heat pumps provided in Section 25D(a)(5) of the Internal Revenue Code. Thus, the Iowa credit rate equals the following percentage of the qualified geothermal heat pump property expenditures:

(1) For property placed in service during calendar year 2019, 6 percent.

(2) For property placed in service during calendar ~~years~~ year 2020 ~~through 2022~~ or 2021, 5.2 percent.

(3) For property placed in service during calendar year 2022 or 2023, 4.4 6 percent.

b. ~~This credit is set to expire~~ expires on January 1, 2024, ~~in accordance with Public Law No. 116-260, Div. EE, Title I, Subtitle C, §148. If the federal residential energy efficient property tax credit for geothermal heat pumps provided in Section 25D(a)(5) of the Internal Revenue Code is extended by federal legislation into additional tax years, the Iowa credit will continue to be available for each year in which the corresponding federal credit is available, absent action by the Iowa general assembly.~~

304.47(3) Tax credit award program limitations. No more than \$1 million in geothermal heat pump tax credits will be issued per calendar year. If the annual tax credit allocation cap is not reached, the remaining amount below the cap shall be made available for the following tax year in addition to, and cumulated with, the cap for that year. The credit will not be available for installations on or after January 1, 2024, even if the previous year’s cap was not met.

304.47(4) and 304.47(5) No change.

This rule is intended to implement Iowa Code section 422.12N, ~~and~~ 2019 Iowa Acts, House File 779, and 2022 Iowa Acts, House File 2317.